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ISRAEL-LEBANON: Missile Sites Attacked

(Information as of 2300 EDT)

//Israeli forces attacked Syrian missile sites on Saturday and targets in West Beirut yesterday. PLO Leader Arafat reportedly has personally agreed to accept UN Middle East resolutions. The Israeli cabinet apparently made no new decisions when it met yesterday.//

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//On Saturday the Israeli Air Force attacked Syrian SA-8 surface-to-air missiles which the Syrians deployed in the Bekaa Valley Friday. The Israelis claim to have destroyed three of the four batteries.

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//The Syrians shot down one Israeli F-4 fighter. The Israelis say the plane was on a routine reconnaissance flight and was downed by an SA-6 surface-to-air missile fired from a site in Syria.//

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Action in Beirut

//Israeli and Palestinian units exchanged tank, artillery, and small arms fire in West Beirut yesterday, and Israeli planes struck the Fakhani quarter, the sports arena, and the Shatila camps. The Israelis cut off all water and power to West Beirut.//

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Syria yesterday reiterated its warning that it has weapons not yet employed which it could use against the Israelis. Some Israeli military sources reportedly believe that the Syrians are referring to their Scud surface-to-surface missiles, currently deployed south of Damascus.

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Comment: Syria is unlikely to use these missiles, many of which are reportedly targeted on Israeli population centers, unless Israel threatens Syria proper.

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Arafat Reportedly Accepts UN Resolutions

According to press reports, after meeting with a US Congressional delegation yesterday Arafat signed a document stating that he "accepts all UN resolutions relevant to the Palestinian question." He refused, however, to make an explicit verbal commitment to recognize Israel. [REDACTED]

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Comment: Arafat also made no specific reference to Resolution 242, which recognizes Israel's right to exist. Some of Arafat's colleagues, in any event, are likely to claim that Arafat did not secure formal PLO approval of the agreement made with the Congressional delegates. [REDACTED]

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Israeli Cabinet Meeting

The Israeli cabinet yesterday discussed the Lebanese situation, but there are no indications of significant new decisions. Israeli media report that the cabinet is unlikely to approve radical action before Foreign Minister Shamir completes his visit to the US and the ministers receive an evaluation of Ambassador Habib's talks with Arab leaders. One minister reportedly said the cabinet was "split down the middle" on whether to launch an all-out attack on West Beirut. [REDACTED]

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ANGOLA: President's Political Position

//President dos Santos, who until now has not been aligned with either of the two major factions in the Angolan regime, appears to be shifting toward the hardline, pro-Soviet faction and may become more intransigent on Namibia and related issues.//

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//The ruling party's Central Committee, under dos Santos's leadership, last week dismissed a leading member of the party's black nationalist faction and publicly reprimanded another. Both had opposed the Soviet and Cuban presence in Angola. The nationalists also have indicated interest in seeking a rapprochement with Jonas Savimbi's insurgents and establishing closer ties with the West.//

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Comment: //Dos Santos's willingness in recent months to engage in discussions with the US on Namibia and on a withdrawal of Cuban troops from Angola presumably antagonized the Soviets and their hardline supporters in the regime. He may now believe he needs to appease them in order to ensure his political survival. In his most recent public statements on southern African issues, dos Santos seems to be taking a tougher line regarding negotiations with the US.//

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OAU: Issues at the Summit

The meeting of the OAU Council of Ministers opening tomorrow in Tripoli--ater a one-day delay--and the annual summit next week will be dominated by the dispute between radicals and moderates over the question of admission of the Polisario Front and by members' concerns that incoming chairman Qadhafi may be able to exploit the OAU for his own purposes.

Comment: The Polisario Front issue may provoke an open split that could jeopardize the organization's future. If, as seems likely, a Front delegation wants to participate in the meeting, the membership question is certain to be raised by those who oppose it. All members that recognize the Polisario probably will attend the summit, ensuring the Polisario the 26 votes needed to confirm its membership in the event of a vote.

Attendees will hear requests from Qadhafi for resolutions designed to embarrass the US. He almost certainly will call on his colleagues to support claims to Diego Garcia by the new leftist Mauritian Government, seeing such a move as an opportunity to criticize the US military presence in the Indian Ocean.

Qadhafi also is likely to cite the shipment of US military equipment to Somalia as another example of Washington's interference in African affairs. In addition, Qadhafi will push for a resolution charging the US with supporting the Israeli invasion of Lebanon.

The summit also will involve the election of an OAU secretary general and other key officials. Qadhafi probably will try to manipulate the outcome of the vote to guarantee placement of persons sympathetic to his policies.

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USSR: Economic Performance at Midyear

Official statistics released last week for the first half of the year indicate industrial growth continues to be slower in 1982 than in 1981, with absolute declines in production recorded in several key sectors. []

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Industrial production, according to official statistics, rose by only 2.7 percent from the corresponding period in 1981. This is less than the officially reported 3.4-percent increase in 1981 and even farther below the 4.7-percent target for 1982. When adjusted to remove inflationary elements in the Soviet calculations, the rise in industrial production this year is running below 2 percent. []

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Output of several important producer goods, including steel, paper, cement, and a number of machinery categories, has fallen below levels of 1981. Declines also were reported for several manufactured consumer goods and for meat output. Energy fared better, with output of gas, oil, coal, and electric power higher than last year. []

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Comment: The slowdown in industrial production was in large measure a reflection of a continuing decrease in the growth of labor productivity. With the quest for efficiency foundering, and another poor harvest in prospect, the outlook for halting the slowdown in industry over the balance of 1982 is bleak. []

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SPECIAL ANALYSES

ISRAEL-LEBANON: Shifting Israeli Goals

//Seven weeks after its invasion of Lebanon, Israel apparently is modifying its political objectives there. Christian hesitancy and continued confessional squabbling have convinced Tel Aviv that prospects for the Phalange-dominated government it initially sought are slim and that its security needs are best served by fashioning alliances with various groups in southern Lebanon. There also is a growing perception among the Israelis that they may have to tolerate a Syrian presence in Lebanon for some time. The shift in Israeli aims seems certain to move Lebanon closer to partition.//

//The Israelis expected Phalange leader Bashir Jumayyil to lose little time in asserting Maronite political and military control. They anticipated that a government dominated by the Phalange--Lebanon's strongest military force once the PLO was defeated--would be able to restore central government authority, control remaining leftists, and ensure Israel's security needs through mutual agreements.//

//Jumayyil, however, has acted more cautiously than the Israelis anticipated. He is concerned that too bold a move to assert Maronite dominance would make him vulnerable to charges of being an Israeli puppet.//

//The Israelis, however, still want Jumayyil to be elected president. They hope he can eventually establish a government that can gain control over the various factions in southern Lebanon and sign a peace treaty with Israel.//

//Moreover, the Israelis probably want him to extend Phalange influence north to Tripoli and to eliminate PLO forces that might otherwise form the nucleus of a new PLO stronghold there.//

//The Israelis also have been surprised by the depth of confessional antagonisms and the tendency of Lebanese

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[redacted]

leaders to put group considerations ahead of national interests even in a crisis. An Israeli cabinet official recently admitted the depth of hostility among the Sunni, Shia, Druze, and Christians would hamper the establishment of a strong central government.// [redacted]

//Israel evidently has concluded security needs can best be met by expanding the buffer zone of their old ally, Major Haddad, north to the Al Awalli River, arming various Shia and Druze militias in the area, and ensuring that Palestinian refugee camps are not reestablished in the 40- to 45-kilometer security zone it hopes to establish. These moves also give Israel a variety of potentially useful political options.// [redacted]

The Syrian Presence

//Prime Minister Begin and other senior officials continue to stress the urgency of total Syrian withdrawal from Lebanon. Foreign Minister Shamir recently said Israel will not withdraw until all Syrian troops have departed. The Israelis fear an extensive Syrian presence would lead to renewed Palestinian infiltration and could threaten the Phalange-controlled areas.// [redacted]

//The Israeli military has warned it will drive the Syrians from Lebanon if they step out of line. Israeli policymakers, however, probably calculate they may have to tolerate a Syrian presence--although reduced--for an extended period. This view stems in part from a growing realization that total ouster of the Syrians would be likely to require a costly military operation that could develop into a wider war.// [redacted]

//The Israelis will insist, however, on a Syrian pullback from Tripoli, and from positions in the Bekaa Valley and on Mount Lebanon that threaten the Christians. They will hold the Syrians responsible for any Palestinian misbehavior originating from remaining Syrian-held parts of the Bekaa Valley.// [redacted]

//Israeli tolerance of a Syrian presence hinges on a negotiated settlement of the Beirut problem. If Israel believes it has no choice but to use military force to remove the PLO, it may combine such a move with a drive to push the Syrians completely out of Lebanon.// [redacted]

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Outlook

//The Israelis will continue to insist publicly on the installation of a strong central government and the removal of all Syrian troops. At the same time, they will take steps to ensure that they maintain military control in the south. A departure of the PLO from West Beirut, either through negotiations or military defeat, would not significantly alter this objective.//

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//Most Lebanese will see the Israeli moves-- particularly the expansion of the zone controlled by Haddad--as a sign that Tel Aviv endorses de facto partition. This will in turn reinforce the inclination of the Lebanese to fall back on confessional alliance, rather than work for national unity.//

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IRAN-IRAQ: The Oil Outlook

//Oil supplies are now plentiful, but the war between Iran and Iraq threatens the continuing flow of oil. A complete shutdown of exports from the two countries would remove much of the surplus in the oil market if sustained through 1982. A spread of the conflict to neighboring states that resulted in damage to key oil facilities would immediately tighten the market and lead to higher prices. A military stalemate with little or no impact on the export capabilities of either belligerent would leave the market soft for the remainder of the year. A quick peace settlement would enable Iraq to resume substantial exports, which would create intense pressure for a drop in prices.//

The invasion threatens Iraq's major southern petroleum facilities, which had a prewar capacity of about 2 million barrels per day. The current military situation will have little immediate effect on current Iraqi crude oil exports, however, because most Iraqi crude production is taking place in the north, with exports limited to the 700,000 barrel per day pipeline through Turkey. The Iraq-Turkey pipeline is extremely vulnerable to sabotage, and the Iranians could close it with ease.

//Iranian military action has already prompted retaliatory Iraqi strikes against Iranian oil facilities. Although Baghdad has the military potential to close the export terminal at Khark Island, recent airstrikes have inflicted only minor damage. Despite the threat of continued Iraqi attacks, tankers continue to load at Khark Island.//

//Although it seems unlikely, Iran might attack the oil facilities of other Persian Gulf states. Such a move might be made in retaliation for successful Iraqi attacks against Khark Island or for the support these countries have given Baghdad.//

Market Reaction

The oil market responded immediately to the invasion. Spot oil prices rose by more than 50 cents per barrel the day after the Iranian move, reversing a monthlong decline. Since then, however, prices have fallen toward their original levels.

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The price increases reflected market concerns that surplus capacity, including inventories outside the Persian Gulf, would not be enough to handle the potential loss of supplies that could occur if the conflict spread. As the Iranian drive stalled and the flow of oil continued, fears in the market subsided somewhat and spot prices again weakened. []

Outlook

The market is likely to remain soft for the rest of the year, provided the conflict does not spread. For the next few months, OPEC will continue to face the problem of supporting the current price structure while almost 10 million barrels per day--or nearly one-third of available production capacity--remains unused. The demand for OPEC oil is likely to increase later this year by perhaps 3-4 million barrels per day, however, once the inventory adjustment process is complete. []

//If the war ends quickly, Baghdad probably could increase exports to as much as 3 million barrels per day within six months after a cease-fire, assuming no further damage is done to its production or export system. The world market could not absorb this much additional oil unless OPEC members--especially Saudi Arabia--clamped a lid on output. With Tehran again free to challenge Riyadh for leadership in OPEC, it would be hard for the organization to manage such a surplus.// []

On the other hand, if oil supplies from Iran and Iraq were cut off, other OPEC members could overcome the disruption. They have surplus capacity of about 8 million barrels per day and would readily raise output to help meet their own financial needs. []

If the war spread beyond Iraq and Iran and resulted in damage to oil facilities in Kuwait and Saudi Arabia, the market would immediately tighten and prices increase. Excess oil productive capacity outside the Persian Gulf now amounts to only about 3 million barrels per day. Current crude output from Persian Gulf producers is more than 12 million barrels per day. []

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